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IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

DURA CORPORATION and KIDDE, INC.,

Petitioners,

—vs.—

TWM MANUFACTURING COMPANY, INC., and
TURNER QUICK-LIFT CORPORATION,

Respondents.

REPLY BRIEF OF PETITIONERS

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REPLY BRIEF OF PETITIONERS

Introduction

This Reply Brief is submitted on behalf of petitioners, Dura Corporation and Kidde, Inc., ("Dura") in reply to the brief of respondents, TWM Manufacturing Company, Inc. and Turner Quick-Lift Corporation ("TWM").

TWM argues that certiorari should not be granted because the entire market value rule did not alone set the royalty base and because the Federal Circuit's propensity to uphold punitive damage awards was not the reason for its affirmance of the punitive damage award in this case. Neither hypothesis of TWM withstands analysis.

The Entire Market Value Rule Was Utilized By The Federal Circuit To Expand The Royalty Base To Unpatented Wheels And Axles

TWM argues that the Federal Circuit did not affirm the inclusion of unpatented wheels and axles in the royalty base by relying solely upon the entire market rule, but rather, relied also upon the absence of certain of Dura's accounting records. TWM therefore argues that this Court's review of the Federal Circuit's propensity to award damages for the sale of unpatented goods is not in issue in this case. TWM's argument is erroneous.

The Magistrate expressly found that the wheels and axles were not part of the patented invention. She stated:

> Any lift suspension is a mechanism to which the wheels are attached. There is nothing new and novel about either an axle or a wheel. Both Dura and Turner bought them from outside suppliers. Evidence at the trial clearly showed both Dura and TWM, as well as others in the industry sold their suspensions separately, that is as a kit, as well as with wheels and axles. A customer was free to buy the suspension from one manufacturer and obtain wheels and axles elsewhere, such as used parts dealers.
>
> The royalty base to which TWM is entitled is the invoiced sales price of the 1400. The axles and wheels are the expected and normal work piece on which any suspension, lift or nonlift, acts. There is nothing novel about either the axle or the wheels of the Turner patent. In the real world the bargain is for the invention. (App. 75a-76a)[1] (Citations omitted)[2]

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1 References are to the Appendix to Dura's Petition for Certiorari.

2 Thus, TWM's subsidiary argument, appearing at pages 15-20 of its response, that the wheels and axles are part of the invention has no merit because it was made to the Magistrate and rejected and never pursued by TWM on appeal in the Federal Circuit, facts which TWM fails to mention.

However, the Magistrate then went on to state that in spite of the fact that the wheels and axles did not form part of the invention, she would not apportion the damages because there were insufficient records in existence to indicate how many suspensions were sold with wheels and axles and how many were sold without. (App. 76a). However, the District Court in reviewing the Magistrate's Report did not rely upon this basis for failing to apportion damages. Rather, the District Court based its decision on the entire market value rule, particularly that rule's strained application by the Federal Circuit. The District Court stated:

> I would add only one thing to the Magistrate's report, that relating to the royalty base. I think the proper basis for the decision on the royalty base is the case of *Paper Converting Machine* v. *Magna-Graphics*, a 1984 case from the Federal Circuit . . . I think that confirms the Plaintiff's position that the wheels and axles are a proper part of the royalty base and the base for determining Plaintiff's lost profits under the "entire market value rule." And I would amend the finding by adding that case to the master's findings. (App. 95a.)

The Federal Circuit then affirmed the District Court's application of the entire market value rule to award damages for the sale of the unpatented wheels and axles. (App. 8a-9a). Thus, it is clear that both the District Court and the Federal Circuit did utilize the entire market value rule to justify the awarding of damages for the sale of the unpatented wheels and axles.

TWM's lost records argument is a red herring. There are two questions on the apportionment issue. Dura sold the patented suspension alone without wheels and axles and together with wheels and axles. It did not have sufficient records to show how often it sold the suspension with and without the wheels and axles and therefore it was assumed that all suspensions were sold with wheels and axles. That is the question to which the loss of records pertains. However, the second question, and the one which is presented to this Court, is that, even assuming

that all of Dura's sales included wheels and axles, is it proper to include those unpatented wheels and axles in the royalty base. Dura's loss of records has no bearing on that issue because Dura has already been penalized for that loss by the assumption that all suspensions were sold with wheels and axles.

The only justification proffered by the District Court or the Federal Circuit for including more than $10,000,000 worth of unpatented wheels and axles in the damage base is their misapplication of the entire market value rule and that is the issue which demands review by this Court. Should this Court find that it was improper to include the unpatented wheels and axles in the damage base, there would be no apportionment problem because the testimony and exhibits from both sides demonstrate that the cost of the wheels and axles is approximately the same as the cost of the patented suspension. As TWM's own vice president and general manager testified:

> Q. Isn't it also a fact that the selling price of the kit [i.e., without wheels and axles] is about one-half of the selling price of a complete suspension assembly, and by assembly I mean including the wheels and axle?
>
> A. As a broad characterization, the suspension kits sell for approximately half the suspension cost. (Federal Circuit Appendix, Vol. I, p. 268a)

This testimony was borne out by the parties own price lists. (Federal Circuit Appendix, Vol. IX, pp. 4856, 4891-4910, 4911-4948).

In summary, TWM was awarded damages based on Dura's sale of unpatented wheels and axles because of the District Court's and the Federal Circuit's distortion of the entire market value rule. The distortion of that rule is inconsistent with this Court's prior treatment of unpatented parts and should be corrected by the granting of certiorari.

TWM's Brief Confirms The Liberal Standards Utilized By The Federal Circuit To Award Punitive Damages

TWM's brief argues that the Federal Circuit has not liberalized the standards for awarding punitive damages because it awarded punitive damages in this case based on a conclusion of "willful infringement." However, TWM's argument begs the question. The words "willful infringement" mean nothing without analyzing the conduct which formed the basis for that conclusion. Here, the only finding underlying the District Court's conclusion of "willful infringement" was its "access plus similarity" theory borrowed from the copyright law.[3]

TWM spends a great deal of its brief listing what it considers to be misconduct of Dura justifying the award of punitive damages. However, none of TWM's allegations were adopted by any Court. The allegations are all speculation which TWM has presented during the course of this case but not one Court has made a finding that Dura did any of the heinous acts attributed to it by TWM, let alone used those acts as the basis for awarding punitive damages. The single basis used to justify the award of punitive damages has been the "access plus similarity" based finding of "copying" which was in turn equated with willful infringement. Dura argued to the Federal Circuit that this "access plus similarity" finding of willful infringement was not sufficient to sustain the award of punitive damages, that there had to be more of a showing than some circumstantial evidence theory borrowed from the copyright law. The Federal Circuit rejected this argument and affirmed the awarding of punitive damages. In so doing it has continued on the course, chartered since its founding, of taking a very liberal view of what conduct justifies the imposition of punitive damages. That is the reason it has had as many

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3 This is the only finding that was law of the case. Thus, the Federal Circuit's application of law of the case resulted in its reliance upon a finding that is insufficient to sustain the awarding of punitive damages.

punitive damage cases before it in four years as the regional circuits considered in the previous ten years.

It is not the purpose of this Petition for Dura to convince this Court that it acted in good faith in litigating against the TWM patent. Dura will present those arguments when the petition is granted. However, TWM's allegations cannot go completely unanswered. For example, at page 8 of its brief, TWM partially quotes a letter from Dura's in-house patent counsel attempting to give the impression that counsel believed the patent to be valid. The portion quoted by TWM states:

> "I have done some searching but have been unable to come up with an anticipation of the Turner patent . . . ."

That is where TWM chooses to end the quote. The balance of the sentence not quoted states:

> "although I have the feeling that anticipatory art does exist."

Thus, in this letter to a patent searcher, Dura's counsel was stating that he believed the patent to be invalid, and not valid as TWM contends. Dura's counsel had already concluded that the patent was invalid based on obviousness grounds. In a memo written just two months before the letter quoted by TWM, Dura's counsel reported to management that:

> "An investigation of this patent has convinced me that it is weak and probably invalid." (Federal Circuit Appendix, Vol. VI, 3139)

Thus, the letter which TWM misquotes was written after counsel had already concluded that the patent was invalid on obviousness grounds, in an attempt to find even closer prior art (i.e., anticipatory prior art) which counsel believed to exist. It is this kind of good faith which the Federal Circuit never considered because it found the "access plus similarity" theory[4]

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4 At page 24 of its brief, TWM states that there was evidence of copying and cites ambiguous testimony from the liability trial, failing to mention that the same witness admitted at the damage trial that he had not observed any actual copying by Dura. (Federal Circuit Appendix, Vol. II, 925a-927a).

of willful infringement to be sufficient to support the award of treble damages and never examined the opinions of Dura's counsel or any of the other evidence which bears on the issue of punitive damages.

This Court should grant certiorari to correct this propensity of the Federal Circuit to support the awarding of punitive damages on meager grounds.

Conclusion

For the reasons stated above, certiorari should be granted.

Respectfully submitted,

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